

## Leggett mulls eliminating contracts to recoup revenue

### Income tax distribution \$24M short; bond rating at stake

by Erin Cunningham | Staff Writer

Montgomery County Executive Isiah Leggett (D) is considering liquidating some county contracts to make up for a \$24.4 million revenue shortfall in March, he announced this week.

The county had been expecting about \$30 million, but received only about \$5 million from the March distribution, which consists of delinquency payments and audited adjustments and fiduciary payments, Leggett wrote in a memo to the County Council.

Such a substantial reduction in projected revenues is "highly unusual" and came as a surprise, Leggett told the council during a meeting Tuesday.

In that same memo, Leggett wrote that another bond rating agency has issued a stern warning to Montgomery County over its budget, predicting that the county's AAA bond rating could suffer if the county remains on course.

Moody's — one of three major bond rating agencies — has placed the county's general obligation bond rating on a watch list for possible downgrade status, Leggett's memo states.

All three rating agencies have issued warnings that the county's AAA status is in jeopardy.

"Placement on watch list for possible downgrade reflects deterioration of the county's financial position driven primarily by income tax revenue shortfalls, which is expected to result in the use of a significant portion of the county's general fund and revenue stabilization fund as of fiscal 2010," Moody's stated, according to Leggett.

Last week, Fitch, another bond rating agency, found that if the county's reserve fund does not rebound in fiscal 2011 and 2012, the county's bond rating could be affected.

"The bad news keeps rolling," said Council Vice President Valerie Ervin (D-Dist. 5) of Silver Spring. "Every single day we're getting worse news."

"It's clear we have a structural budget problem, and it's not going to get better. It will continue to get worse."

Despite the warnings, Fitch, Standard & Poor's and Moody's kept the county's general obligation bond rating at AAA, considered the gold standard.

Montgomery County's AAA bond rating, which it has held since 1973, is the highest available rating and is an indicator of the security of the county's financial debt, such as bonds.

The rating, which is assessed annually, also determines the interest rate at which the county can borrow funds.

Leggett has not indicated which contracts would be killed if he moves to liquidate the county's contractual obligations, said Councilman Marc Elrich (D-At large) of Takoma Park.

It's likely that the contracts would be for purchases, including equipment and computers, Elrich said.

Leggett also is considering moving money from other county funds into the general fund, transferring money left over from capital projects to the general fund and eliminating some purchases that were anticipated through the end of the fiscal year, his memo states.

Councilwoman Duchy Trachtenberg (D-At large) of North Bethesda sent a memo Tuesday to Joseph Beach, director of the county's Office of Management and Budget, regarding the state of the county's budget.

In that memo, Trachtenberg asked why more has not been done to restructure the county government to cut costs.

Trachtenberg said in an interview that there is likely not enough time to restructure government before fiscal 2011, but officials should consider ways to consolidate services and the work force before fiscal 2012.

During a meeting with Leggett on Tuesday, Councilman Michael J. Knapp said Leggett's most recent proposal to address the \$24.4 million revenue shortfall did nothing but move money around and does not address the county's long-term structural problem.

"We've talked about furloughs for next year. (But) do we need to do that this year?" Knapp (D-Dist.2) of Germantown questioned.

Leggett said he was not considering furloughs in fiscal 2010, which ends June 30.

The warnings from the bond rating agencies are a sign that the county needs a new direction, Elrich said.

"We have to come up with a different financial plan," he added.